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TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD
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SUBJECT: COMMUNITY HEALTH PLAN

On December 17, your Board approved a motion instructing the Department of Health Services to report on the future role of the Community Health Plan (CHP) in the context of a redesigned health care delivery system.

The Department is preparing for Board consideration an agreement with the L.A. Care Health Plan for the provision of administrative services to the CHP. The Department believes that the outsourcing of CHP's administrative functions will improve the operational efficiency of the organization and will serve to enhance any efforts to expand into new lines of business. This agreement will be presented to your Board within the next month for consideration.

Background

The CHP – originally known as the Neighborhood Health Plan – was created in 1982 as a federal Distressed Hospital Grant project to study the impact of managed care on inner-city hospitals caring for the indigent population. The CHP launched its Medi-Cal Program product line in 1983 and in 1985 the State Department of Corporations granted the CHP its health plan license under the State Knox-Keene Health Care Service Plan Act of 1975. In 1988, the CHP obtained Federal Health Maintenance Organization (HMO) qualification, making it the second publicly-operated managed care plan in the United States to achieve this status.

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Since that time, the CHP has grown to offer four lines of business – Medi-Cal Managed Care, Healthy Families, Temporary County Employee, and the Personal Assistance Services Council (PASC)/Services Employee International Union Healthcare Worker Health Care Plan (In-Home Supportive Services). CHP has 180,746 enrolled lives in these four product lines.

Medi-Cal Managed Care Program

The CHP launched its Medi-Cal managed care product line in 1983 under the terms of a federal grant entitled the Distressed Hospital Grant. Under this program, the enrolled population has grown to approximately 15,000 covered lives. In 1997, the CHP became one of seven participating Health Plans in the Local Initiative Health Plan (L.A. Care Health Plan). As part of the Local Initiative, CHP is assigned members through the L.A. Care Health Plan.

As of March 1, 2003, CHP's Medi-Cal Managed Care program has 151,863 enrollees. CHP Medi-Cal Managed Care operates in all of the 12 State-designated managed care regions within Los Angeles County and operates a provider network that includes all DHS facilities and a network of contracted Independent Practice Associations (IPA)/Medical Groups, hospitals and pharmacies. CHP's Medi-Cal Managed Care beneficiaries are assigned to County facilities and contracted primary care providers.

Healthy Families Program

In accordance with the federal State Children's Health Insurance Program (SCHIP), California, in 1998, established the Healthy Families Program. Healthy Families is available to children in families with incomes between 100 and 200 percent of poverty from birth through 19 years of age. Healthy Families was designed to operate through the private health insurance market and families bear a share of cost based upon their annual income.

Under the Healthy Families Program, each County has a designated Community Provider Plan, whose mission is tied closely to serving the safety net patient population. Since the inception of the Healthy Families Program, the Managed Risk Medical Insurance Board (MRMIB) has awarded the Community Provider Plan status in Los Angeles County to the CHP largely due to the size of its traditional and safety net provider network. As the Community Provider Plan, CHP is able to offer a significantly lower monthly premium to beneficiaries than other health plans, which is an important tool in marketing the plan to potential members.

In 1998 the CHP, in partnership with Universal Care, successfully sought a contract with MRMIB for the Healthy Families Program. The CHP originally entered into partnership with Universal Care to ensure that it met the State's requirements for provider distribution and patient access, particularly in those areas in which there are no County-owned facilities. This partnership has allowed CHP to ensure that a broad network of public and private providers is available to Healthy Families Program enrollees.

CHP presently has close to 25,000 individuals enrolled in its Healthy Families Program, either assigned directly to CHP or through Universal Care's provider network. On January 7, 2003, your Board approved an agreement to add L.A. Care Health Plan to CHP's Healthy Families network; which will result in an additional 7,000 covered lives to the current CHP Healthy Families Program enrollment, beginning in July 2003.

Temporary County Employees Program

In 1992, your Board approved a health plan benefit for County Temporary Employees, allowing these workers to participate in County-offered health plans. CHP was expanded to offer a product line – which is more limited than proscribed by Medi-Cal Managed Care and the Healthy Families Program – specific to these individuals.

During the first ten years of the program, enrollment in CHP fluctuated between 500 and 1,000 covered lives. Following changes to the County's agreements with the unions that resulted in increased choice among better recognized health plans, as well as a change in the waiting period for insurance eligibility under CHP, the number of enrollees has dropped to its current number of 28 covered lives. Even though the employee's share of cost for covering both the employee and dependents under CHP is less than half that of the next lowest cost plan (which is PacifiCare), employees have elected to enroll in the other plans offered by the County. Given the significant drop in the number of enrollees, the Department is currently evaluating whether it is fiscally prudent to continue offering this product line to such a small beneficiary population.

In-Home Supportive Services Worker Health Plan Benefit Program

In April 2002, CHP launched a health plan benefit for qualifying In-Home Supportive Services (IHSS) workers. IHSS workers who are employed for two consecutive months and have been authorized to work at least 112 hours during one of these months are eligible for the program.

The IHSS program has been extremely successful in terms of enrollment. It has met its original enrollment estimate and as of January 1, 2003, has 8,085 enrollees. Services are

provided across the County through DHS-operated and contracted providers. The IHSS program, unlike Medi-Cal Managed Care and Healthy Families, is a commercial product. The Department is presently working with the Chief Administrative Office (CAO) to evaluate the financial impact and feasibility of expanding IHSS eligibility to individuals who are authorized to work at least 80 hours per month.

Financial Performance

In September 2002, CHP reported Tangible Net Equity of \$41,566,573, exceeding the reserve of \$3,392,617 required under its Knox-Keene license. CHP has Excess Tangible Net Equity of \$38,173,956. This Excess Tangible Net Equity will be transferred into the Department's fund balance to support the public health care delivery system.

Additionally, CHP's medical loss ratio – the ratio of money spent on medical care versus administrative costs – is slightly higher than that of the other Plan Partners participating in the L.A. Care Health Plan. This is an indication that CHP passes more of its premium dollars to providers than do other L.A. Care participating plans.

Because the Department has not been able to accurately track the actual cost of care delivered to CHP patients treated in DHS facilities, these figures may be inflated in terms of their actual value. The availability of these excess funds to distribute among the facilities is critical to the Department's ability to meet the costs associated with clinical service delivery.

Future Direction for CHP

The role of CHP in providing insurance coverage to low-income individuals has long been a topic of discussion. There are a number of issues that must be considered when evaluating the feasibility of expanding CHP into new markets.

Any decision to expand CHP into other product lines will be based upon the capability of the Plan's infrastructure, capacity within the DHS provider network, potential capitation revenue, and the cost associated with providing coverage to new populations. The success of any health plan is dependent upon the ability to shift cost and risk among its beneficiaries. The administrative capacity of the plan is a key factor in achieving this balance.

The two commercial product lines presently offered by CHP are the temporary County employee and the IHSS programs. As noted above, there are only 28 employees and their families enrolled in the County temporary employees product

line and the Department is evaluating the fiscal impact of continuing to offer a benefit package for such a small population.

One issue on which the Department continues to work with the Chief Administrative Officer and Director of Personnel, in accordance with a Board motion, is the development and presentation of an additional low-cost health plan option for County employees that would allow them to enroll in the CHP. The Department is working to develop the necessary actuarial and rate information related to the development of such a benefits package.

Additionally, as you know, one of the requirements of the recently-approved Selective Provider Contracting Program Waiver extension between the State and the federal Centers for Medicare and Medicaid Services (CMS) is that the Department set a goal to increase to 18 percent the number of commercial and Medicare patients it treats in the inpatient setting. The Department is developing a work plan to provide to CMS by May to achieve this target by December 2004.

As mentioned above, two key issues that must be taken into consideration in any evaluation of CHP program expansion are infrastructure and capacity, which are discussed in more detail below.

Infrastructure

Administering an effective managed care plan is resource intensive and demands rapid response to the changing complexities of the health care marketplace. In past years, both internal and external reviews, including audits by the State Department of Managed Health Care, have concluded that CHP lacks much of the infrastructure necessary to effectively manage the lives currently enrolled in the plan.

Limitations with information systems, staffing, procedures, training, compensation, and coordination with DHS facilities continue to present a significant challenge to CHP's ability to manage the care of existing members, meet regulatory requirements, build effective delivery system relationships, and establish the product lines that would be necessary to make these services available to low-income uninsured individuals in the County.

Rather than invest the significant amount of resources necessary to strengthen the administrative infrastructure of the CHP, the Department has determined that a more appropriate path would be to outsource the administrative services required to operate the health plan.

Because of its common mission to support the health care safety net, the Department identified L.A. Care Health Plan (L.A. Care) as the most viable partner in this endeavor. Collaboration among county public health systems and Local Initiatives has been established as one of the State's goals for the Two-Plan model for Medi-Cal managed care. This collaboration is evidenced through the recent partnering between the County and L.A. Care for the administration of the IHSS program and the HealthyKids Initiatives.

The Department believes that the resources and expertise available through L.A. Care will assist in stabilizing the administrative and support structure of the health plan and thus support any future expansion opportunities. Additionally, through such an agreement, the Department believes it will achieve not only savings in the cost associated with administering the CHP, but also will avoid the significant infrastructure investments, such as computer and other information technology and staff development and training that would be required to strengthen the Plan's operations.

One question that has been raised is the potential that L.A. Care's operation of a managed care plan could lead to a situation in which it competes against DHS for beneficiaries. At this time, the only product for which L.A. Care operates as a plan is Healthy Families. The Board recently approved an agreement under which L.A. Care becomes a subcontractor to CHP and gives up its contract for Healthy Families with the State, effective July 1, 2003.

L.A. Care has strongly expressed its interest and intent to provide assistance to strengthen and expand the CHP's role in the Medi-Cal managed care market. To this end, the L.A. Care Board of Governors recently voted to assign a larger proportion of Medi-Cal managed care beneficiaries to CHP. Additionally, the L.A. Care Board of Governors' membership includes not only representation from the County, but from community providers as well, whose overwhelming interest is in maintaining the health care safety net.

The Department has been working with L.A. Care to draft a comprehensive Administrative Services Agreement to contract for the provision of support services required to strengthen the health plan's infrastructure. Under this agreement, L.A. Care will provide support in the areas of: network operations, medical administration, financial operations, member services, information systems, marketing, and compliance. This agreement should be coming to your Board shortly for consideration.

This relationship presents a significant opportunity to take advantage of L.A. Care's infrastructure, and expertise to enhance the administrative performance and efficiency of the CHP, while at the same time retaining the financial benefits associated with owning and operating a health plan, such as the availability of Excess Tangible Net Equity funds to support the County health care delivery system and the guaranteed assignment of Medi-Cal managed care beneficiaries to DHS facilities. The Department believes this

partnership will provide a solid foundation for further growth in its existing products and potential expansion to new product line offerings.

System Capacity

As noted above, any determination of whether to recommend expanding CHP into the commercial market will be dependent upon DHS system capacity, administrative infrastructure, capitation revenue, and cost to operate.

One of the key issues that must be considered when evaluating establishing new product lines under CHP is whether sufficient capacity exists within DHS facilities to accommodate these new patients, particularly in light of the County's statutory mandate to provide services to the indigent and the recent reductions in services in DHS facilities.

The episodic nature of the patients who seek care through the County system –close to 80 percent of DHS hospital admissions come through the emergency room – limits the ability to admit patients for elective procedures. Similarly, the reduction in capacity as a result of the implementation of the strategic plan will further curtail the ability of DHS to provide ambulatory care services to those beyond its mandated patient population.

Increasing the amount of services provided to non-Medi-Cal patients in DHS facilities also could serve to reduce funding for the Department, in that under the Medi-Cal Disproportionate Share Hospital program, funding tied to Medi-Cal beneficiaries is significantly higher than the amount provided by other payers. Thus, reducing and replacing Medi-Cal patients with individuals who have private insurance coverage could result in a loss of revenue to the Department.

Finally, given the strategic plan reductions, it is likely that any expansion of product lines would require the CHP to increase its level of private sector provider contracting. A key test of the financial viability of business expansion is the cost of these contracts in relation to increased revenue associated with new beneficiaries.

Medicare Managed Care

Your Board also asked the Department to report back on the feasibility of expanding the CHP into the Medicare managed care market. Medicare managed care, was initiated in 1997 by Congress to expand the opportunities for Medicare beneficiaries to enroll in managed care organizations. Prior to that time, Medicare managed care opportunities were limited to a few demonstration projects.

DHS will have to determine whether there are a sufficient number of these patients to warrant establishing a new product line within the CHP. At present, there are some 35,000 patients over 65 years of age who are served through DHS and partner agencies. Of these patients, 30 percent are uninsured, 36 percent have Medicare, and 27 percent have Medi-Cal.

Nationally, approximately 14 percent of Medicare beneficiaries are covered through Medicare+Choice plans. In California and Los Angeles County this figure is significantly higher, with 34 percent of Medicare beneficiaries in Los Angeles County enrolled in health maintenance organizations. At present Medicare represents approximately six percent of patients cared for in DHS facilities.

The managed care market in Los Angeles County is extremely competitive and it could prove difficult for CHP and DHS to break into the Medicare managed care market, given the existing mandate to provide care to indigents, necessary investments in DHS capacity and infrastructure, and the historic experience that persons with insurance coverage choose to seek care elsewhere.

Additionally, the participation requirements for health plans under the Medicare+Choice program are more stringent than those that exist for Medi-Cal managed care. The administrative challenges that exist for CHP, as well as DHS facility capacity issues, could limit opportunities in this area and may require significant upfront investments.

The Department will continue to evaluate this issue and report back to you on its findings.

Please let me know if you have any questions.

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c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors